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SUBJECT: KENYA AND EAST AFRICA: A STEP CLOSER TO FIBER OPTIC
CONNECTIVITY

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proprietary information and is not for release outside USG
channels.

¶1. (SBU) Summary: Fiber optic connectivity in East Africa may be only a little more than 18 months away. The U.S-owned and managed SEACOM submarine fiber optic cable is at the starting line, ready to begin system construction in September under a contract with another U.S. firm, fiber maker Tyco Telecommunications. Meanwhile, rival projects dither. Kenya may build its own TEAMS cable independently, or co-build with SEACOM, depending on the results of a pending tender for system construction. Kenya is also moving to expand its national fiber infrastructure to reap the full benefits of international connectivity after a submarine cable is built. Similarly, the private sector, sensing an impending explosion of pent-up demand once fiber is in place, is looking to bridge "the last mile" by connecting households, schools, and small businesses to the internet using wireless and related technologies. End summary.

Background: The Race to Build a Fiber Optic Highway

¶12. (SBU) Reftels chronicle the efforts of three different projects trying to be the "first mover" in the construction of the region's first-ever submarine fiber optic cable. The impetus for all three (and a rumored fourth) springs from wide recognition that there is money to be made and that without affordable, high-speed broadband connectivity to the rest of the world, East African countries will continue to miss out on a major opportunity to grow their economies, attract investment, generate jobs, and generally plug into an increasingly "flat", globalized marketplace.

¶13. (SBU) The American-driven SEACOM undersea cable project continues to lead the field to be first in the water and first to start operations. SEACOM, though legally a Mauritian entity, is being built and financed by the Sithe Group, a New York-based turnkey infrastructure provider 100%-owned by the Blackstone Group, also of New York, and the world's largest venture capital firm. Ref A reported that unlike its rival projects, SEACOM has lined up and

finalized funding for its cable, using its own funds and by attracting money from three other private sector partners, two of which are based in Africa.

SEACOM: Key Recent Developments

¶4. (SBU) In late July and early August, Econ/C met with SEACOM President (and Sithe Vice President) Brian Herlihy, two representatives from fiber maker Tyco Telecommunications, also of the U.S., and Bitange Ndemo, the Permanent Secretary in Kenya's Ministry of Information and Communications. The news was almost all good. Key recent developments:

-- Survey: The SEACOM marine survey being performed by Tyco for the cable's route began in South Africa in June, has reached Kenya, and is on schedule.

-- Construction Contract: Tyco and SEACOM moved from engagement to marriage by signing a contract for full system construction on July ¶26. Herlihy says that the undersea portion is worth \$310 million. If all other construction options are exercised, the contract could come to around \$500 million.

-- Backhaul Included: SEACOM will build backhaul in several of the countries where it will land to ensure a link between the SEACOM cable and major inland cities. In Kenya, for example, it will build a backhaul fiber link from the landing point in Mombasa to Nairobi.

-- Timing: The contract signing and SEACOM's \$10 million down payment to Tyco has bought SEACOM a place in line in an increasingly tight global supplier market for fiber and fiber laying services. It expects to instruct Tyco to begin manufacturing fiber at factories in New Hampshire and Japan on September 1. Fiber will actually be installed from ships on the ocean floor beginning in

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approximately one year. SEACOM expects the system to be operational by March, 2009.

-- Regulatory Issues: Herlihy has spent much of the last 18 months working with lawyers in all of the countries in which SEACOM will land, painstakingly lining up the necessary partnerships and approvals to operate. He foresees no significant hurdles at this point. On the day he met Econ/C, he was dropping off SEACOM's application at the Communications Commission of Kenya (CCK) for an international data carrier (or "gateway") license. Approvals for gateway licenses have become routinized at CCK, and he expects the application to be approved in 30-60 days.

-- Who's Buying?: On August 13, SEACOM had its "coming out party" at an event at a Nairobi hotel attended by approximately 25 local and regional representatives of ISPs, cell phone companies, local loop operators, and TV companies. Herlihy provided an in-depth briefing on the origins, structure, pricing, and operations of the SEACOM cable. He is aiming to pre-sell \$100 million in capacity, and his presentation was well-received.

TEAMS: Still on the Fence

¶5. (SBU) Meanwhile, the shorter Government of Kenya-led TEAMS submarine cable linking Mombasa to Fujaira in the UAE, is also making progress. The tender for system construction was published on July 23, with bidding restricted to five companies: Alcatel of France, Tyco, Fujitsu and NEC of Japan, and China's Huawei. Bids are due August 25. As TEAMS moves ahead independently, however, it still has an offer on the table from SEACOM to co-build the two cables in order to save both projects millions of dollars in up-front capital costs.

¶6. (SBU) Permanent Secretary Ndemo favors the "cable within a cable" co-build proposal, but explained to Econ/C that the Ministry cannot evaluate and then publicly defend the economic merit of the

SEACOM offer until it has the bidding data for the TEAMS project. If comparing the bidding data for TEAMS to the co-build proposal shows the latter is clearly a better deal for Kenya, then Kenya might opt to co-build under SEACOM's contract with Tyco and the TEAMS tender process would go away, with Tyco winning all the business outright.

TEAMS Likely to Face Delays Due to Financing

¶ 6. (SBU) Even if the co-build offer is a better deal in terms of cost, however, Kenya may still choose to build TEAMS independently if Ndemo and others believe that it can be built faster than SEACOM. Tyco reps told Econ/C August 2 that because TEAMS is a much shorter cable, they think Tyco can complete construction by the end of CY 2008 - a few months before SEACOM is due for completion. But this assumes the Government of Kenya (GOK) and its partner in the UAE, Etisalat, are ready to move to construction as soon as the tender is awarded (in September, according to Ndemo).

¶ 7. (SBU) This is a dubious assumption, according to Herlihy, who says TEAMS simply doesn't have its financing lined up yet. The GOK has \$16 million set aside for the project, but little else is firm. A long-awaited briefing for prospective local and regional investors in TEAMS, held in early July and organized by Standard Chartered Bank on behalf of the GOK, was a disaster according to Ndemo himself, as well to a local ISP owner, who wrote later in the press that the meeting yield "very little real information" about the project and its financial viability. Herlihy points out that it took Sithe many months to identify and then come to agreement with its partners, who number only three. He believes the GOK (and others around Africa announcing plans to build new cables) seriously underestimate the time it takes to line up funding and nail down the many cross-border legal and regulatory details involved in such major projects. TEAMS and the EASSy project (below) aren't even at the starting line, in his view.

But Other Pieces Falling Into Place

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¶ 8. (SBU) While the GOK continues to dither on financing and on the SEACOM co-build offer, it appears to be moving to put in place the domestic infrastructure that will be needed if Kenya and the region are to reap the full benefits of submarine connectivity. Already, at least two privately operated fiber networks link a handful of major cities in Kenya. To complement this, the GOK in February announced an ambitious plan to build a national fiber network linking all of the country's major towns and cities. To manage the network, it formed a special purpose vehicle, the Fiber Optic National Network (FONN), owned by the Kenyan Ministry of Finance, and put out a \$50 million tender in March. In June, the GOK awarded the tender to three different companies, Sagem of France and Huawei and ZTE of China. Three companies were chosen instead of one in order to finish the project more quickly, perhaps in as few as 6-7 months, according to PS Ndemo.

¶ 9. (SBU) Even closer to the consumer, a number of initiatives seek to bridge the so-called "last mile" by bringing genuine high speed broadband from the fiber networks into homes and small businesses in Kenya and the wider region. One, recently launched by a group of experienced local and international telecom executives and backed by U.S. investors, has put in an application for \$50 million in OPIC funding and hopes to raise a total of \$100 million. It recently bought a number of existing ICT companies in the region, including one of Kenya's largest ISPs, Wananchi.com. It aims to use these acquisitions and the money it raises from OPIC and others to launch converged broadband services to households, schools and small businesses at affordable prices through the use of WiMax and other technologies.

What About EASSy?

¶10. (SBU) Embassy Nairobi welcomes additional information from other posts in the region on the status of the longest-running submarine cable project, the East Africa Submarine System (EASSy). On the one hand, sketchy press reports indicate there is progress in the form of financing being provided by the International Finance Corporation. On the other hand, a recent somewhat confusing Economist report indicates that the project continues to be mired in disagreements over its structure and ownership, and that some governments in the region have vowed to withhold landing rights until the problems are fixed. In Kenya, neither Ndemo nor Herlihy of SEACOM believe EASSy is viable as it was originally structured - indeed the murky structure and resulting delays in the EASSy project provided the very impetus for the GOK and Sithe to strike out and build cables on their own. Both appear to have written EASSy off and are unsure about its current status. Herlihy, however, has found the perception of progress on EASSy an annoying distraction that has led some potential customers to delay in committing to SEACOM.

Comment

¶11. (SBU) The upshot of all this is that East Africa should have fiber optic connectivity in a little over 18 months by way of SEACOM, a cable planned, financed, and built by one U.S. company, with construction provided by another. Whether Kenya opts to build its own cable, or co-build with SEACOM, is almost a sideshow for now. Kenya would probably be wise to join up with SEACOM, but in any case, the latter will soon be under construction with the TEAMS cable on board or not. As the other parts of the ICT sector, such as terrestrial networks and "last mile" connectivity, also fall into place, large swathes of Africa could soon see an explosion of pent-up demand for affordable internet-based products and services. As this happens, there should be nearly unlimited upside potential in terms of new investment, new jobs, and new industries across the economies of the region. For this to work in Kenya, however, the country will also need to invest in the new roads and power generating capacity (septel) that will be needed to handle the higher growth.

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